

**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70
CONSOLIDATED FIRE**

REPORT ON AUDIT

JUNE 30, 2006

County of San Bernardino Special Districts
County Service Area No. 70
Consolidated Fire
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District County Service Area
No. 70 - Consolidated Fire

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the County of San Bernardino Special District County Service Area No. 70 - Consolidated Fire (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2006, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the State Controller's Minimum Audit Requirement for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the County of San Bernardino Special District County Service Area No. 70 - Consolidated Fire, as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

The budgetary comparison information on pages 21 - 23 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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The County of San Bernardino Special District County Service Area No. 70 - Consolidated Fire has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the CSA's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented in all material respects in relation to the component unit financial statements taken as a whole.

Rogers, Anderson, Malody + Scott, LLP

September 15, 2006

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**County of San Bernardino Special Districts
County Service Area No. 70 - Consolidated Fire
Statement of Net Assets
June 30, 2006**

ASSETS

Cash and cash equivalents	\$ 15,040,237
Accounts receivable	152,489
Interest receivable	131,364
Taxes receivable	425,164
Due from other governments	9,708,742
Capital assets, net of depreciation	<u>4,422,319</u>
 Total Assets	 <u>29,880,315</u>

LIABILITIES

Accounts payable	2,591,826
Salaries and benefits payable	3,252,383
Due to other governments	4,842,961
Advances to other governments	400,000
Compensated absences payable	<u>5,379,051</u>
 Total Liabilities	 <u>16,466,221</u>

NET ASSETS

Invested in capital assets	4,422,319
Unrestricted	<u>8,991,775</u>
 Total Net Assets	 <u><u>\$ 13,414,094</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 70 - Consolidated Fire
Statement of Activities
For the Year Ended June 30, 2006**

EXPENSES

Salaries and benefits	\$ 21,132,949
Services and supplies	27,002,679
Contributions	519,984
Depreciation	549,558
Intergovernmental	5,152,555
Total Program Expenses	<u>54,357,725</u>

PROGRAM REVENUES

Charges for services	12,350,713
Operating grants and contributions	268,462
Net Program Expense	<u>(41,738,550)</u>

GENERAL REVENUES

Property taxes	5,063,886
Other taxes	421,305
Fines, forfeitures and penalties	32,386
Federal assistance	26,406,455
State assistance	748,367
Investment earnings	361,285
Intergovernmental	4,949,848
Gain on sale of capital assets	60,311
Other	4,316,924
Total General Revenues	<u>42,360,767</u>

Change in Net Assets	622,217
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Net Assets - beginning	<u>12,791,877</u>
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Net Assets - ending	<u><u>\$ 13,414,094</u></u>
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The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Consolidated Fire
Balance Sheet
Governmental Funds
June 30, 2006

	SPECIAL REVENUE FUNDS		
	Equipment Replacement (SKK)	Termination Benefits (SKL)	General (SKX)
ASSETS			
Cash and cash equivalents	\$ 7,897,907	\$ 2,734,392	\$ 2,794,928
Accounts receivable	-	-	152,489
Interest receivable	67,225	22,306	28,734
Taxes receivable	-	-	425,164
Due from other funds	-	-	781,195
Due from other governments	-	-	8,990,647
Total Assets	<u>\$ 7,965,132</u>	<u>\$ 2,756,698</u>	<u>\$ 13,173,157</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ 2,591,826
Salaries and benefits payable	-	-	3,252,383
Due to other funds	-	-	63,100
Due to other governments	-	-	4,842,961
Advance from other governments	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>10,750,270</u>
Fund Balances:			
Reserved for:			
Encumbrances	-	-	2,276,443
Imprest cash	-	-	1,700
Change fund	-	-	300
Unreserved:			
Undesignated	<u>7,965,132</u>	<u>2,756,698</u>	<u>144,444</u>
Total Fund Balances	<u>7,965,132</u>	<u>2,756,698</u>	<u>2,422,887</u>
Total Liabilities and Fund Balances	<u>\$ 7,965,132</u>	<u>\$ 2,756,698</u>	<u>\$ 13,173,157</u>

Amounts reported for *governmental activities* in the statement of net assets (Exhibit A) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities consist of:

Compensated absences

Net Assets of Governmental Activities

The accompanying notes are an integral part of these financial statements.

TOTAL NONMAJOR GOVERNMENTAL FUNDS	Total Governmental Funds
\$ 1,613,010	\$ 15,040,237
-	152,489
13,099	131,364
-	425,164
-	781,195
-	8,990,647
<u>\$ 1,626,109</u>	<u>\$ 25,521,096</u>
\$ -	\$ 2,591,826
-	3,252,383
-	63,100
-	4,842,961
400,000	400,000
<u>400,000</u>	<u>11,150,270</u>
-	2,276,443
-	1,700
-	300
<u>1,226,109</u>	<u>12,092,383</u>
<u>1,226,109</u>	14,370,826
<u>\$ 1,626,109</u>	
	4,422,319
	<u>(5,379,051)</u>
	<u>\$ 13,414,094</u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Consolidated Fire
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

	SPECIAL REVENUE FUNDS		
	Equipment Replacement (SKK)	Termination Benefits (SKL)	General (SKX)
REVENUES			
Property taxes	\$ -	\$ -	\$ 5,063,886
Other assistance	-	-	315,839
Service fees	183,720	-	11,917,305
Special assessments	-	-	249,688
Other taxes	-	-	421,305
Fines, forfeitures and penalties	-	-	32,386
Federal assistance	498,781	-	25,907,674
State assistance	-	-	748,367
Investment earnings	180,752	59,582	83,114
Other	-	-	3,999,669
Total Revenues	863,253	59,582	48,739,233
EXPENDITURES			
Salaries and benefits	-	-	20,424,749
Services and supplies	-	-	26,816,651
Capital outlay:			
Vehicles	-	-	1,964,642
Equipment	-	-	198,704
Improvements to land	-	-	-
Total Expenditures	-	-	49,404,746
Excess of Revenues Over Expenditures	863,253	59,582	(665,513)
OTHER FINANCING SOURCES (USES)			
Sale of capital assets	-	-	60,311
Transfer in	1,564,733	620,000	2,986,885
Transfer out	(673,000)	(40,000)	(5,061,325)
Total Other Financing Sources (Uses)	891,733	580,000	(2,014,129)
Net Change in Fund Balances	1,754,986	639,582	(2,679,642)
Fund Balances - beginning	6,210,146	2,117,116	5,102,529
Fund Balances - ending	<u>\$ 7,965,132</u>	<u>\$ 2,756,698</u>	<u>\$ 2,422,887</u>

The accompanying notes are an integral part of these financial statements.

TOTAL NONMAJOR GOVERNMENTAL FUNDS	Total Governmental Funds
\$ -	\$ 5,063,886
-	315,839
-	12,101,025
-	249,688
-	421,305
-	32,386
-	26,406,455
-	748,367
37,837	361,285
1,416	4,001,085
<u>39,253</u>	<u>49,701,321</u>
-	20,424,749
20,073	26,836,724
-	1,964,642
-	198,704
180,169	180,169
<u>200,242</u>	<u>49,604,988</u>
<u>(160,989)</u>	<u>96,333</u>
-	60,311
400,000	5,571,618
-	(5,774,325)
<u>400,000</u>	<u>(142,396)</u>
239,011	(46,063)
987,098	14,416,889
<u>\$ 1,226,109</u>	<u>\$ 14,370,826</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 70 - Consolidated Fire
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2006**

Net Change in Fund Balances - Total Governmental Funds	\$	(46,063)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$2,177,560) exceeded depreciation expense (\$549,558) in the current period.		1,628,002
--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--	-----------

Capital assets transferred from other governments are not financial resources and, therefore, are not reported in the governmental funds.		(251,522)
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Increase in compensated absences payable		(708,200)
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Change in Net Assets of Governmental Activities	\$	622,217
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The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 70 - Consolidated Fire
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2006**

ASSETS

Cash and investments	\$ 547,240
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Total Assets	<u>\$ 547,240</u>
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LIABILITIES

Due to other governments	\$ 58,695
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Due to bondholders	<u>488,545</u>
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Total Liabilities	<u>\$ 547,240</u>
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The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 70 - Consolidated Fire
Notes to Financial Statements
June 30, 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. 70 - Consolidated Fire was established by an act of the Board of Supervisors of the County of San Bernardino (the County) to provide fire management, administration, ambulance billing, centralized vehicle maintenance and warehousing, communications, training, fire prevention, hazardous materials handling, household waste handling, information services, human resources, and emergency services.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 70 - Consolidated Fire of the County of San Bernardino and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2006.

Government-wide and fund financial statements

The government-wide financial statements (e.g., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

**County of San Bernardino Special Districts
County Service Area No. 70 - Consolidated Fire
Notes to Financial Statements
June 30, 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *special revenue fund* labeled "Equipment Replacement" is for the replacement of fire equipment.

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special revenue fund* labeled "Termination Benefits" is used to offset the cost of retiring personnel.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

**County of San Bernardino Special Districts
County Service Area No. 70 - Consolidated Fire
Notes to Financial Statements
June 30, 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (e.g., the current portion of interfund loans) or "advances to/from other funds" (e.g., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the CSA does not have any business-type activities.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**County of San Bernardino Special Districts
County Service Area No. 70 - Consolidated Fire
Notes to Financial Statements
June 30, 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Employee compensated absences

Accumulated vacation, holiday benefits, sick pay and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absence liabilities are recorded as a current liability. The CSA is not obligated to pay for unused sick leave if an employee terminates or retires.

Compensated absences activity for the year ended June 30, 2006 was as follows:

Beginning Balance	Additions	Deletions	Ending Balance
\$ 4,670,851	\$ 3,662,220	\$ 2,954,020	\$ 5,379,051

**County of San Bernardino Special Districts
County Service Area No. 70 - Consolidated Fire
Notes to Financial Statements
June 30, 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Stewardship, compliance and accountability

2005 Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

2005 Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

NOTE 2: CASH AND DEPOSITS

Cash and cash equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and cash equivalents are shown at the fair value as of June 30, 2006.

See the County of San Bernardino's Comprehensive Annual Financial Report (CAFR) for details of their investment policy and disclosures related to investment credit risk, concentration of credit risk, interest rate risk and custodial credit risk, as required by GASB Statement No. 40.

**County of San Bernardino Special Districts
County Service Area No. 70 - Consolidated Fire
Notes to Financial Statements
June 30, 2006**

NOTE 3: CAPITAL ASSETS

Capital asset activity for year ended June 30, 2006 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,450	\$ -	\$ -	\$ 1,450
Construction in progress	478	180,169	-	180,647
Total capital assets, not being depreciated	1,928	180,169	-	182,097
Capital assets, being depreciated:				
Vehicles	5,094,770	2,335,933	(642,866)	6,787,837
Equipment	1,676,977	188,826	(375,442)	1,490,361
Total capital assets, being depreciated	6,771,747	2,524,759	(1,018,308)	8,278,198
Less accumulated depreciation for:				
Vehicles	(3,294,662)	(685,834)	399,121	(3,581,375)
Equipment	(433,174)	(122,630)	99,203	(456,601)
Total accumulated depreciation	(3,727,836)	(808,464)	498,324	(4,037,976)
Total capital assets, being depreciated, net	3,043,911	1,716,295	(519,984)	4,240,222
Governmental activities capital assets, net	<u>\$ 3,045,839</u>	<u>\$ 1,896,464</u>	<u>\$ (519,984)</u>	<u>\$ 4,422,319</u>

2005 This amount includes current year depreciation expense of \$549,558 and \$258,906 for accumulated depreciation as of 6/30/06 for vehicles and equipment with a cost of \$527,368 transferred to the CSA in the current year.

**County of San Bernardino Special Districts
County Service Area No. 70 - Consolidated Fire
Notes to Financial Statements
June 30, 2006**

NOTE 4: RETIREMENT PLAN

Plan description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (the MDAQMD) and the South Coast Air Quality Management District (the AQMD), were later included, along with the County of San Bernardino (the County), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

Fiduciary responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2006.

Funding policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.89% - 12.65% for general members and 10.85% - 14.77% for safety members, of their annual covered salary of which the County pays approximately 7%. County of San Bernardino employer contribution rates are as follow: County General 10.8%, County Safety 23.84%. All employers combined are required to contribute 13.01% of the current year covered payroll. For 2006, the County's annual pension cost of \$166,614,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Section 31453 of the 1937 Act.

**County of San Bernardino Special Districts
County Service Area No. 70 - Consolidated Fire
Notes to Financial Statements
June 30, 2006**

NOTE 4: RETIREMENT PLAN (continued)

The County's annual pension cost and prepaid asset, computed in accordance with GASB 27, *Accounting for Pensions by State and Local Governmental Employers*, for the year ended June 30, 2006, were as follows (in thousands):

Annual Required Contribution (County fiscal year basis)	\$ 166,614
Interest on Pension Assets	(34,207)
Adjustment to the Annual Required Contribution	40,156
Annual Pension Cost	<u>172,563</u>
Annual Contributions Made	<u>166,614</u>
Increase/(Decrease) in Pension Assets	(5,949)
Pension Assets, Beginning of Year	<u>844,882</u>
Pension Assets, End of Year	<u><u>\$ 838,933</u></u>

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

Year Ended June 30,	Annual Contributions Made (in thousands)		Percentage Contributed
	SBCERA	County	
2004	\$ 652,325	\$ 540,106	100%
2005	\$ 161,906	\$ 141,450	100%
2006	\$ 197,343	\$ 166,614	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the Bonds) in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2006 is \$439,879,000.

On June 24, 2004, the County issued its County of San Bernardino Pension Obligation Bonds, Series 2004 A (Fixed Rate Bonds), its County of San Bernardino Pension Obligation Bonds, Series 2004 B (Auction Rate Bonds), and its County of San Bernardino Pension Obligation Bonds, Series 2004 C (Index Bonds) in a respective aggregate principal amounts of \$189,070,000, \$149,825,000 and \$125,000,000. The Bonds were issued to finance the County's share of the unfunded accrued actuarial liability of the SBCERA. The current amount outstanding at June 30, 2006 is \$461,665,000.

**County of San Bernardino Special Districts
County Service Area No. 70 - Consolidated Fire
Notes to Financial Statements
June 30, 2006**

NOTE 5: FEDERAL AND STATE GRANTS

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

NOTE 6: RISK MANAGEMENT

The CSA is insured through the County's self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability, and workers' compensation claims. Public liability claims are self-insured for up to \$1 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to \$25 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II. Workers' compensation claims are self-insured up to \$2 million per occurrence, and covered by CSAC EIA for up to \$10 million for employer's liability, and up to \$50 million for workers' compensation per occurrence. Property damage claims are insured on an occurrence basis over a \$25,000 deductible, and insured with CSAC EIA Property Program.

The County supplements its self-insurance for medical malpractice claims with CSAC EIA, which provides annual coverage on a claim made form basis with a SIR of \$1 million for each claim. Maximum coverage under the policy is \$11.5 million per claim with an additional \$10 million in limits provided by the CSAC EIA General Liability II Program.

All public officials and County employees are insured under a blanket Comprehensive Disappearance, Destruction, and Dishonesty policy covering County monies and securities, also with CSAC EIA with a \$100,000 deductible, and excess limits up to \$10 million per occurrence.

The activities related to such programs are accounted for in the County's Risk Management Fund (an Internal Service Fund) except for unemployment insurance, and employee dental insurance, which are accounted for in the County's General Fund. The IBNR and IBNS liabilities stated on the Risk Management Fund's balance sheet are based upon the results of actuarial studies, and include amounts for allocated and unallocated loss adjustment expenses. The liabilities for these claims are reported using a discounted rate of 4.25%. It is the County's practice to obtain actuarial studies on an annual basis.

The County has a risk management investment program agreement with the Bank of New York to finance the self-insured general liability, automobile liability, workers' compensation, and medical malpractice programs. The County's investment in the agreement totaled \$47.7 million at June 30, 2006.

**County of San Bernardino Special Districts
County Service Area No. 70 - Consolidated Fire
Notes to Financial Statements
June 30, 2006**

NOTE 6: RISK MANAGEMENT (continued)

The total claims liability of \$127.2 million reported at June 30, 2006 is based on the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements, and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2005 and 2006 were:

Fiscal Year	Beginning of Fiscal Year Liability (in thousands)	Current Year Claims and Changes in Estimates (in thousands)	Claims Payments (in thousands)	End of Fiscal Year Liability (in thousands)
2004 - 05	\$ 101,709	\$ 44,309	\$ (30,304)	\$ 115,714
2005 - 06	\$ 115,714	\$ 46,926	\$ (35,407)	\$ 127,233

NOTE 7: TRANSFERS IN/OUT

Interfund transfers are transactions used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and capital projects funds. At June 30, 2006, the CSA made the following interfund transfers in and out:

	Transfers in:			
	General (SKX)	Equipment Replacement (SKK)	Fire Training Tower (CRE)	Total
Transfers out:				
General (SKX)	\$ -	\$ 113,770	\$ -	\$ 113,770
Equipment replacement (SKK)	108,000	-	400,000	508,000
	<u>\$ 108,000</u>	<u>\$ 113,770</u>	<u>\$ 400,000</u>	<u>\$ 621,770</u>

NOTE 8: CONTINGENCIES

As of June 30, 2006, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

Required Supplementary Information
County of San Bernardino Special Districts
County Service Area No. 70 - Consolidated Fire
Budgetary Comparison Schedule - Special Revenue Fund -
Equipment Replacement Fund
For the Year Ended June 30, 2006

	Equipment Replacement (SKK)			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
REVENUES				
Service fees	\$ -	\$ -	183,720	183,720
Federal assistance	765,000	765,000	498,781	(266,219)
Investment earnings	1,228,376	1,228,376	180,752	(1,047,624)
Other	5,141,096	5,141,096	-	(5,141,096)
Total Revenues	7,134,472	7,134,472	863,253	(6,271,219)
EXPENDITURES				
Equipment	8,124,644	8,089,644	-	8,089,644
Total Expenditures	8,124,644	8,089,644	-	8,089,644
Excess of Revenues Over (Under) Expenditures	(990,172)	(955,172)	863,253	1,818,425
OTHER FINANCING SOURCES (USES)				
Transfer in	1,749,172	1,749,172	1,564,733	(184,439)
Transfer out	(759,000)	(794,000)	(673,000)	121,000
Total Other Financing Sources (Uses)	990,172	955,172	891,733	(63,439)
Net Change in Fund Balance	\$ -	\$ -	1,754,986	\$ 1,754,986
Fund Balance - beginning			6,210,146	
Fund Balance - ending			\$ 7,965,132	

Required Supplementary Information
County of San Bernardino Special Districts
County Service Area No. 70 - Consolidated Fire
Budgetary Comparison Schedule - Special Revenue Fund -
Termination Benefits Fund
For the Year Ended June 30, 2006

	Termination Benefits (SKL)			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
REVENUES				
Investment earnings	\$ 410,295	\$ 410,295	\$ 59,582	\$ (350,713)
Other	1,835,976	1,835,976	-	(1,835,976)
Total Revenues	2,246,271	2,246,271	59,582	(2,186,689)
EXPENDITURES				
Salaries and benefits	3,026,271	3,026,271	-	3,026,271
Total Expenditures	3,026,271	3,026,271	-	3,026,271
Excess of Revenues Over (Under) Expenditures	(780,000)	(780,000)	59,582	839,582
OTHER FINANCING SOURCES (USES)				
Transfer in	820,000	820,000	620,000	(200,000)
Transfer out	(40,000)	(40,000)	(40,000)	-
Total Other Financing Sources (Uses)	780,000	780,000	580,000	(200,000)
Net Change in Fund Balance	\$ -	\$ -	639,582	\$ 639,582
Fund Balance - beginning			2,117,116	
Fund Balance - ending			<u>\$2,756,698</u>	

Required Supplementary Information
County of San Bernardino Special Districts
County Service Area No. 70 - Consolidated Fire
Budgetary Comparison Schedule - Special Revenue Fund - General
For the Year Ended June 30, 2006

	General (SKX)			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
REVENUES				
Property taxes	\$ 5,291,431	\$ 5,291,431	\$ 5,063,886	\$ (227,545)
Other assistance	160,000	160,000	315,839	155,839
Service fees	12,115,113	12,921,653	11,917,305	(1,004,348)
Special assessments	270,000	270,000	249,688	(20,312)
Other taxes	-	-	421,305	421,305
Fines, forfeitures and penalties	90,000	90,000	32,386	(57,614)
Federal assistance	40,544,117	45,650,093	25,907,674	(19,742,419)
State assistance	160,000	160,000	748,367	588,367
Investment earnings	70,000	70,000	83,114	13,114
Other	4,300,212	4,300,212	3,999,669	(300,543)
Total Revenues	63,000,873	68,913,389	48,739,233	(20,174,156)
EXPENDITURES				
Salaries and benefits	20,195,058	23,747,005	20,424,749	3,322,256
Services and supplies	37,459,681	40,367,500	26,816,651	13,550,849
Other charges	28,000	28,000	-	28,000
Debt service:				
Principal	206,277	206,277	-	206,277
Capital outlay:				
Vehicles	1,650,500	1,971,100	1,964,642	6,458
Equipment	201,500	309,909	198,704	111,205
Structures and improvements	656,000	96,000	-	96,000
Reserves and contingencies	623,631	503,271	-	503,271
Total Expenditures	61,020,647	67,229,062	49,404,746	17,824,316
Excess of Revenues Over (Under) Expenditures	1,980,226	1,684,327	(665,513)	(2,349,840)
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	-	-	60,311	60,311
Transfer in	3,043,196	3,153,196	2,986,885	(166,311)
Transfer out	(7,933,976)	(7,748,077)	(5,061,325)	2,686,752
Total Other Financing Sources (Uses)	(4,890,780)	(4,594,881)	(2,014,129)	2,580,752
Net Change in Fund Balance	\$ (2,910,554)	\$ (2,910,554)	(2,679,642)	\$ 230,912
Fund Balance - beginning			5,102,529	
Fund Balance - ending			<u>\$ 2,422,887</u>	

**County of San Bernardino Special Districts
County Service Area No. 70 - Consolidated Fire
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2006**

	SPECIAL REVENUE FUNDS			
	Recycle (RKD)	Violation Penalties (RKE)	Office of Justice (SKT)	Dead Tree Abatement (SLH)
ASSETS				
Cash and cash equivalents	\$ 14	\$ 118,141	\$ 6,603	\$ 1,046,720
Interest receivable	-	1,106	62	9,907
Total Assets	<u>\$ 14</u>	<u>\$ 119,247</u>	<u>\$ 6,665</u>	<u>\$ 1,056,627</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Advance from other governments	\$ -	\$ -	\$ -	\$ 400,000
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>400,000</u>
Fund Balances:				
Unreserved:				
Undesignated	<u>14</u>	<u>119,247</u>	<u>6,665</u>	<u>656,627</u>
Total Fund Balances	<u>14</u>	<u>119,247</u>	<u>6,665</u>	<u>656,627</u>
Total Liabilities and Fund Balances	<u>\$ 14</u>	<u>\$ 119,247</u>	<u>\$ 6,665</u>	<u>\$ 1,056,627</u>

Schedule Four

CAPITAL PROJECTS FUNDS						Total
Communication (CED)	Trailer (CHN)	Fire Training Tower (CRE)	Hazmat Classroom Trail (CPO)	Hazmat Pre-Engin Awning (CPP)	Fire Security Camera (CWL)	Nonmajor Governmental Funds (see Exhibit C)
\$ 41	\$ 7	\$ 399,629	\$ 15,531	\$ 25,857	\$ 467	\$ 1,613,010
-	-	1,565	147	312	-	13,099
<u>\$ 41</u>	<u>\$ 7</u>	<u>\$ 401,194</u>	<u>\$ 15,678</u>	<u>\$ 26,169</u>	<u>\$ 467</u>	<u>\$ 1,626,109</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 400,000
-	-	-	-	-	-	400,000
41	7	401,194	15,678	26,169	467	1,226,109
41	7	401,194	15,678	26,169	467	1,226,109
<u>\$ 41</u>	<u>\$ 7</u>	<u>\$ 401,194</u>	<u>\$ 15,678</u>	<u>\$ 26,169</u>	<u>\$ 467</u>	<u>\$ 1,626,109</u>

**County of San Bernardino Special Districts
County Service Area No. 70 - Consolidated Fire
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2006**

	SPECIAL REVENUE FUNDS			
	Recycle (RKD)	Violation Penalties (RKE)	Office of Justice (SKT)	Dead Tree Abatement (SLH)
REVENUES				
Investment earnings	\$ 541	\$ 3,216	\$ 222	\$ 28,837
Other	-	1,416	-	-
Total Revenues	541	4,632	222	28,837
EXPENDITURES				
Services and supplies	20,073	-	-	-
Capital outlay:				
Improvements to land	-	-	-	-
Total Expenditures	20,073	-	-	-
Excess of Revenues Over (Under) Expenditures	(19,532)	4,632	222	28,837
OTHER FINANCING SOURCES (USES)				
Transfer in	-	-	-	-
Net Change in Fund Balances	(19,532)	4,632	222	28,837
Fund Balances - beginning	19,546	114,615	6,443	627,790
Fund Balances - ending	\$ 14	\$ 119,247	\$ 6,665	\$ 656,627

Schedule Five

CAPITAL PROJECTS FUNDS						Total
Communication (CED)	Trailer (CHN)	Fire Training Tower (CRE)	Hazmat Classroom Trail (CPO)	Hazmat Pre-Engin Awning (CPP)	Fire Security Camera (CWL)	Nonmajor Governmental Funds (see Exhibit C)
\$ 1	\$ -	\$ 1,163	\$ 425	\$ 2,965	\$ 467	\$ 37,837
-	-	-	-	-	-	1,416
1	-	1,163	425	2,965	467	39,253
-	-	-	-	-	-	20,073
-	-	-	-	180,169	-	180,169
-	-	-	-	180,169	-	200,242
1	-	1,163	425	(177,204)	467	(160,989)
-	-	400,000	-	-	-	400,000
1	-	401,163	425	(177,204)	467	239,011
40	7	31	15,253	203,373	-	987,098
<u>\$ 41</u>	<u>\$ 7</u>	<u>\$ 401,194</u>	<u>\$ 15,678</u>	<u>\$ 26,169</u>	<u>\$ 467</u>	<u>\$ 1,226,109</u>